

Your extremely comprehensive survey of Communist China's trade offensive in Asia contains information of considerable interest to our trade specialists. Your remarks on the Bank of China's foreign branches and on the reactions of Asian businessmen to the economic threat of China are particularly interesting. In general, however, we feel that the report may exaggerate the magnitude of China's economic offensive.

Free World statistics place China's exports to Asia in 1956 at approximately \$440 million. About 60 percent of these exports, however, went to Japan and Hong Kong. The size of China's exports to Asia is also inflated by a large portion of these exports to Hong Kong which is subsequently reexported. China's exports to the underdeveloped countries of Asia amounted to about \$150 million in 1956. In 1957, however, China's exports to the underdeveloped countries of Asia declined to approximately \$130 million.

Recognizing that Communist China has been expanding trade with Asian countries at approximately the same rate as Japan, the level of Japanese trade in the area is, however, far above that of China. Excluding exports to one another, Japan's exports to Asian countries amounted to about \$900 million in 1956 and China's exports to about \$340 million. Japan's imports were about \$730 million whereas China's were about \$140 million. Based on six-month totals, 1958 estimates indicate a continued increase in both nations' trade with the area. Moreover, where a significant 1958 decline in trade with Japan is indicated -- Burma and India -- general economic difficulties, rather than Chinese competition alone have been responsible for the trade contraction.

Your report differs in several minor respects with data available from our sources. In almost every case it tends to exaggerate the scale of Chinese activity. The statement that China has opened a swing account of 30 million pounds sterling for trade with Indonesia is a case in point. It is unlikely that the sum of all Chinese swing accounts with Free World countries amount to this much.

China's trade offensive is a matter for serious concern in the West. But, for a variety of reasons it appears unlikely that China's economic activities in Asia will expand as rapidly in the near future as in the 1954-56 period. China's energies and resources will continue to be devoted largely to internal economic development. Internal production capacity and consumption requirements as well as the present, considerable share China has in this trade would preclude the maintenance of recent rates of growth in these markets except in isolated instances with selected products. Certainly, if China were conducting this trade at a loss, this would further restrict the prospect of growth.

We are concerned, however, that the low prices of China's exports to Asia may not reflect a policy of dumping but may, in fact, approximate Chinese production costs. Increased acceptance of Chinese exports in the face of present Western prices may lead to an increase in Chinese prices. The additional income thus made available might finance additional economic forays in the area.

The chief interest of the overseas Chinese merchant in Southeast Asia continues to be, as in the past, the accumulation of wealth and status. The Free World has capitalized, and may continue to capitalize on this interest at least as effectively as the Chinese Communists by dealing directly with him in any commercial activity in the area. The only alternative would be to attempt to create and develop an indigenous class of traders in each Southeast Asian country -- a policy which has been singularly unsuccessful in the past.